



Aphria Inc. (TSX:APHA) Stock: Should You Buy the Dip?

Description

Aphria (TSX:APHA)(NYSE:APHA) dropped nearly 30% December 3 after a short-seller report suggested the company had acquired assets that might have a lower value than expected.

Investors ran for the exits on the news, sending Aphria's stock price down to a close of \$7.60 from \$10.51 the previous trading day.

Now that the stock is trading at a new 12-month low, bargain hunters are wondering if Aphria is attractive today to add to their [portfolios](#).

What's the story?

According to Quintessential Capital Management (QCM) and Hindenburg Research, known short sellers, Aphria spent \$280 million on Latin American assets in recent months that might not be as valuable as reported.

The short-seller report alleges that assets in Jamaica, Argentina, and Colombia that were held by SOL Global Investment Corp., previously called Scythian Biosciences, were sold to Aphria at expensive prices.

Andy DeFrancesco, chairman and chief investment officer of SOL, has a history with Aphria. His private equity firm was one of the founding investors in Aphria back in 2013.

Aphria and DeFrancesco say the claims are false and are preparing a response.

Should you buy the dip?

Short seller reports are increasingly having significant impacts on the stock prices of the companies they target, and while some revelations turn out to be justified and valid, others do not, so investors have to be careful about passing judgement one way or the other before all the news comes out.

Regarding the current claims against Aphria, the market will have to see what the company come back

with to refute the short-seller report. If Aphria can quickly prove the value of the assets it acquired in Latin America, the stock could quickly return to its previous level.

The cannabis sector as a whole has been under pressure since the launch of the Canadian recreational market in October. Stock prices of the [major producers](#), including Aphria, rose significantly leading up to the opening of recreational sales, but the first few weeks have seen supply shortages and complaints about slow delivery times.

Producers are ramping up capacity and the Canada Post disruptions should be finished, so the market is expected to run more smoothly in the coming months, but the sector is still expensive.

Aphria traded for more than \$20 in September, and at the current price of \$7.60 still has a market capitalization of \$1.9 billion. That's much cheaper than a couple of months ago, but remains high based on the current revenue stream.

The drop could make Aphria a takeover target, as consolidation in the industry is expected to continue. At this point, however, I would keep any new investment small or even wait for the dust to clear.

There could be a big rebound in the stock if Aphria can prove the short-seller report is incorrect, but ongoing volatility should be expected until things get clarified.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date

2025/08/06

Date Created

2018/12/04

Author

aswalker

default watermark